

## § 282.22

### § 282.22 Maintenance (upkeep) and repairs.

(a) *Basis for subsidy.* The fair and reasonable maintenance and repair costs not compensated by insurance, if eligible for subsidy under the ODSA and the regulations in 46 CFR part 272, shall be used for determining the daily amount of subsidy. The U.S.-foreign cost differential shall be determined from price estimates of representative items of maintenance and repair work and by using the repair practices of the foreign-flag competition.

(b) *U.S.-foreign cost differential.* MARAD shall use the following procedures for calculating the U.S.-foreign cost differential for M&R.

(1) *Cost Survey.* MARAD shall select a sample of jobs which are representative of the various types of maintenance and repair work—drydocking and underwater repairs, machinery repairs, hull and deck repairs, electrical repairs, exterior painting and interior painting, etc. The jobs shall be described fully and combined into a standard set of specifications based on a particular type of vessel. The same specifications shall be used for obtaining all price estimates. MARAD shall request reliable and mutually acceptable ship repair cost experts to ascertain the U.S. and foreign M&R prices. MARAD shall survey foreign countries during a three-year cycle. The survey year prices shall be adjusted in the years between surveys by price adjustments estimated by the ship repair cost experts.

(2) *Country cost differential.* A country cost differential shall be determined for each country where work was performed on the competitive vessels. The country cost differential shall be 100 percent minus the ratio of the estimated foreign price to the U.S. price estimate. The U.S. price estimate shall be representative of the coastal area included in the subsidized service (for example East Coast) or, if more than one coast is served, the coast where the company is home based. For example:

## 46 CFR Ch. II (10-1-06 Edition)

### DETERMINATION OF COUNTRY COST DIFFERENTIAL—YEAR—1985—U.S. EAST COAST—FOREIGN COUNTRY—UNITED KINGDOM

Repair category	Foreign price	U.S. price
Drydocking & Underwater Repairs .....	\$49,598	\$70,662
Boiler Repairs .....	18,938	20,287
Machinery Repairs .....	33,004	36,193
Hull and Deck Repairs .....	16,729	20,853
Electrical Repairs .....	11,868	11,117
Exterior Painting .....	5,456	7,974
Interior Painting .....	681	1,162
Estimate Totals ....	\$136,274	\$168,248
Foreign/U.S. Price Ratio—81%		
Country Cost Differential (100-81)—19%.		

(3) *Distribution of repairs.* The distribution of repairs refers to the countries where M&R work was performed on the vessels of the foreign-flag competitor. When data on the repairing practices are obtained directly from the foreign competitor, they be used. If information about such practices is unavailable—or only partially available—data, published by the classification societies and Lloyd's Voyage Record, reporting the dates and localities of drydocking and completion of the various types of vessel surveys, shall be used for determining the geographical distribution of the unknown repairing practices. For diesel vessels, there are three basic types of surveys—drydocking, machinery, and hull. For steam vessels, there is a fourth survey—boiler—in addition to the other three surveys. Since these surveys may be performed in different countries, they are weighted in order to determine the distribution of repairs. The weighting factors shall be: drydocking—20 percent, machinery—40 percent (10 percent allocated to boiler survey on steam vessels), and hull—40 percent.

(4) *Proportionate cost differential.* A proportionate cost differential for each principal foreign-flag competitor shall be determined by multiplying the percentage distribution of repairs for each country where repair work was performed by the country cost differential for that country and by adding the resulting weighted percentages for all countries where repair work was performed.

(5) *U.S.-foreign cost differential.* The U.S.-foreign cost differential shall be

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determined by multiplying the proportionate cost differential for each principal foreign-flag competitor by the competition weight factor for that

competitor, and by adding the resulting differentials for all principal foreign-flag competitors, as shown in the following example.

ABC STEAMSHIP COMPANY, INC.—TRADE ROUTE—X—U.S.-FOREIGN COST DIFFERENTIAL FOR MAINTENANCE (UPKEEP) AND REPAIRS SUBSIDY RATE—1985

Principal competitors	(1) Distribution of repairs		(2) Country cost differential (per-cent)	(3) Proportionate cost differential (1) × (2) (per-cent)	(4) Competition weight factor (Per-cent)	(5) Weighted differential (3) × (4) (Per-cent)
	Country	(Per-cent)				
Japan .....	Japan .....	85	36.21	30.78	23.4	7.20
	U.S. ....	15	0	0		
	.....	100	.....	30.78		
Norway .....	Norway .....	15	44.72	6.71	31.1	9.84
	Netherlands .....	20	43.23	8.65		
	Japan .....	45	36.21	16.29		
	U.S. ....	20	0	0		
	.....	100	.....	31.65		
United Kingdom .....	U.K. ....	80	19.00	15.20	45.5	10.35
	Hong Kong .....	15	50.35	7.55		
	U.S. ....	5	0	0		
	.....	100	.....	22.75		
U.S.-Foreign Cost Differential .....	.....	.....	.....	.....	.....	27.39

(c) *Calculation.* The appropriate U.S.-foreign cost differential shall be applied to the subsidizable and audited maintenance and repair costs for the three-year period, discussed in paragraph (c)(1) of this section, to establish a relationship of the cost differentials between M&R and wages. This relationship shall be used to establish the M&R subsidy on a current basis by applying the percentage relationship to the per diem wage subsidy rate.

(1) *Historical period.* The relationship of calendar period M&R subsidy to fiscal period wage subsidy shall be measured for the three-year period commencing five years prior to January 1 of the subsidized year. The M&R subsidy and the wage subsidy shall be expressed as an amount per voyage day for purposes of establishing the relationship. This ratio shall be established for each subsidized service and applied to the per diem wage rate of each ship type in the service to factor a daily amount of subsidy for M&R. The following is an example of the determination of the relationship and the daily amount of subsidy for M&R.

DETERMINATION OF DAILY AMOUNT OF SUBSIDY FOR M&R

T.R. 98 item	Calendar Year 1980	Calendar Year 1981	Calendar Year 1982	Total
M&R C.Y. Expenses .....	\$1,700,000	\$2,000,000	\$1,900,000	
Subsidy Rate .....	40.00%	44.00%	50.00%	
Subsidy .....	\$680,000	\$880,000	\$950,000	\$2,510,000
Voyage Days .....	1,100	1,225	1,175	3,500
Average Subsidy Per Voyage Day (\$2,510,000÷3,500 days)=\$717.14				
	Fiscal Year 1980	Fiscal Year 1981	Fiscal Year 1982	Total
Wages F.Y. Per Diem Rate .....	\$7,700	\$8,050	\$8,200	
Voyage Days .....	1,180	1,230	1,060	3,470
Subsidy .....	\$9,086,000	\$9,901,500	\$8,692,000	\$27,679,500

## DETERMINATION OF DAILY AMOUNT OF SUBSIDY FOR M&amp;R—Continued

T.R. 98 item	Calendar Year 1980	Calendar Year 1981	Calendar Year 1982	Total
Average Subsidy Per Voyage Day (\$27,679,500÷3,470 days)=\$7,976.80 Ratio M&R ODS to Wage ODS \$717.14÷\$7,976.80=8.99%				
T.R. 98 ship type	Daily wage ODS 1/ 1/85	Ratio M&R to wage ODS (per- cent)	Daily M&R ODS 1/1/ 85	
C4-A .....	\$9,000	x 8.99		\$809.10
C5-B .....	\$9,300	x 8.99		\$836.07
C6-C .....	\$9,600	x 8.99		\$863.04

(2) *Data submission requirement.* The operator is required to submit annually a certified statement of eligible and audited M&R expenses, segregated by service, for the historical period referred to in paragraph (c)(1) of this section. The report shall be submitted to the Director, Office of Ship Operating Costs no later than January 1 of the subsidized year.

**§ 282.23 Hull and machinery insurance.**

(a) *Subsidy items.* The fair and reasonable net premium costs (including stamp taxes) of hull and machinery, increased value, excess general average, salvage, and collision liability insurance against risks and liabilities covered under the terms and conditions of policies approved as to form and coverage by MARAD, less lay-up returns, shall be eligible for subsidy and used for determining the U.S.-foreign cost differential. Port risk premiums are eligible for subsidy but not for determining the U.S.-foreign cost differential.

(b) *U.S.-foreign cost differential.* A U.S.-foreign cost differential shall be calculated for each service. Due to the difficulty of comparing forms and costs of hull and machinery insurance coverages, the following assumptions shall be used for estimating the composite premium cost of the foreign-flag competitor.

(1) *Coverage.* The foreign competitive vessels have the same types and amounts of insurance coverages and deductible averages as the subsidized vessels.

(2) *Premium rate.* The foreign competitive vessels are insured in the British market and the rate for such vessels is

the same as the British market rate for the subsidized vessels. If the operator carries all of its insurance in the American market, the American market rate shall be assumed to be the same as the British market rate.

(3) *Repairs.* Insurable repairs of the foreign competitive vessels are performed in the same countries and in the same distribution as non-insurable repairs, and the cost differential for such repairs shall be the same as the maintenance and repair percentage differential.

(4) *Particular average.* The percentage of particular average repair claims for the foreign competitive vessels is the same as the percentage of particular average repair claims for the subsidized vessels. The particular average portion of the premium cost for the subsidized vessels shall be determined as follows:

(i) *Percentage.* The particular average portion of the premium cost shall be determined by applying a percentage to the hull and machinery premium cost after deducting the estimated total loss premium. The percentage is based on insured claims experience. The percentage shall be determined by dividing the total of underwriter's absorptions for particular average domestic repair claims paid and estimated by the total of underwriter's absorptions for all claims paid and estimated (excluding total loss and constructive total loss claims) under the hull and machinery portion of the insurance coverage, except that such percentage shall not exceed eighty-five (85) percent. The percentage is based on the claims experience of the subsidized vessels for the five (5) calendar year period preceding the subsidized year. For